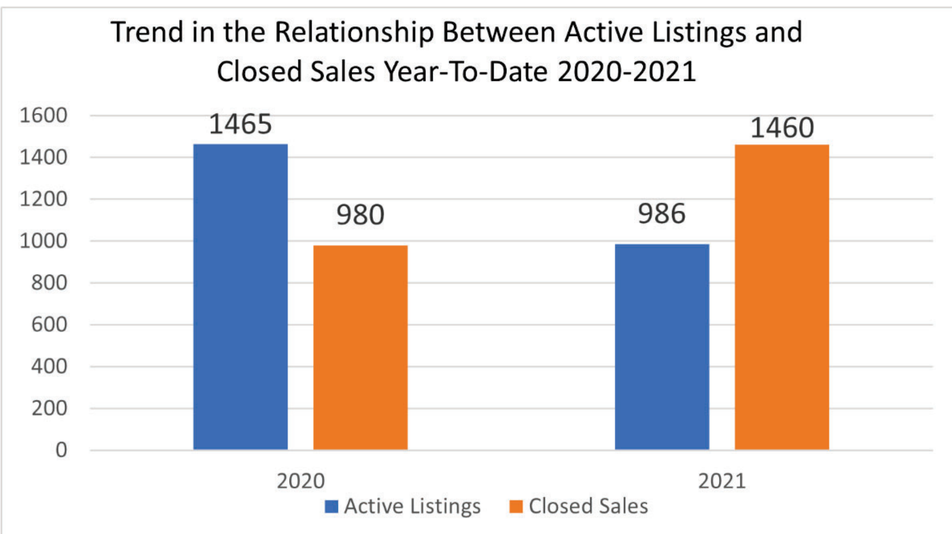
FCR
FIRST CALIFORNIA REALTY, INC.
commercial & residential

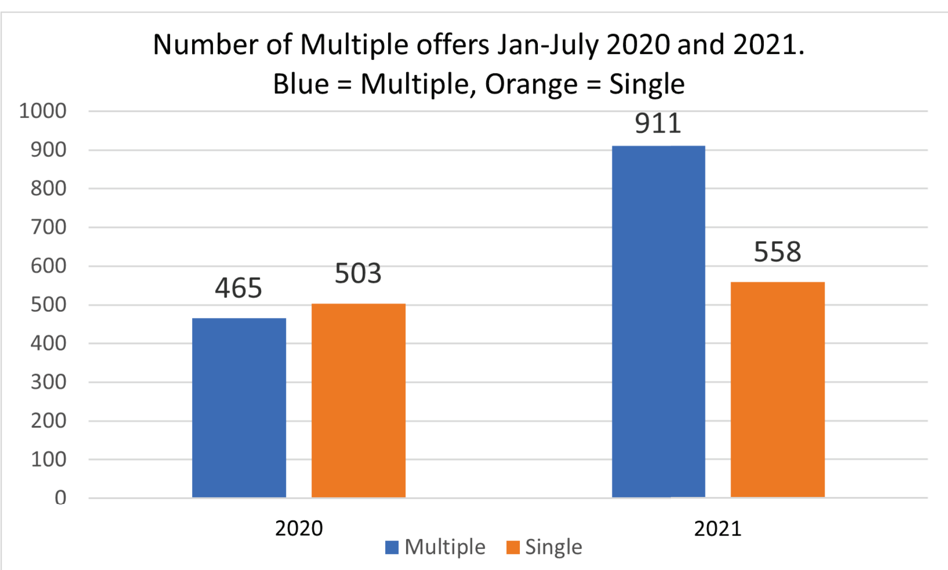
AUGUST 2021

THE SHIFT

From a Seller's to a Buyer's Market
Has it begun?

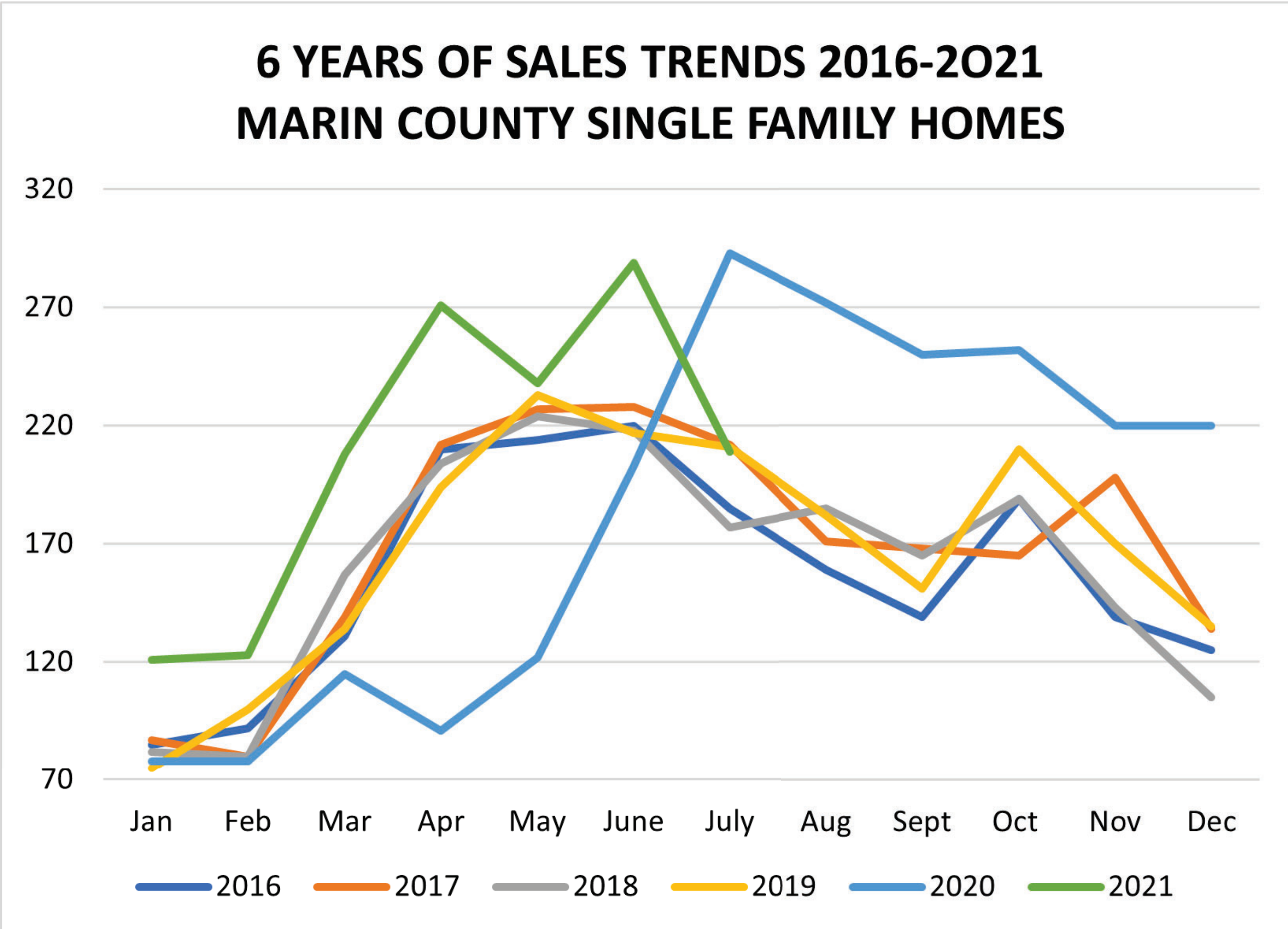


Comparing activity in the first seven months of 2021 to 2020, recent trends appear to be holding; listing inventory is dropping and sales are increasing. In 2020, there were **485** more Active Listings than Closed sales. In 2021, there were **474** more Closed Sales than Active Listings. So far, year-over-year Active Listings have gone down **32.7%** while Closed Escrows have gone up by **49%,** transforming what was a strong sellers market last year into an extreme sellers market in 2021.

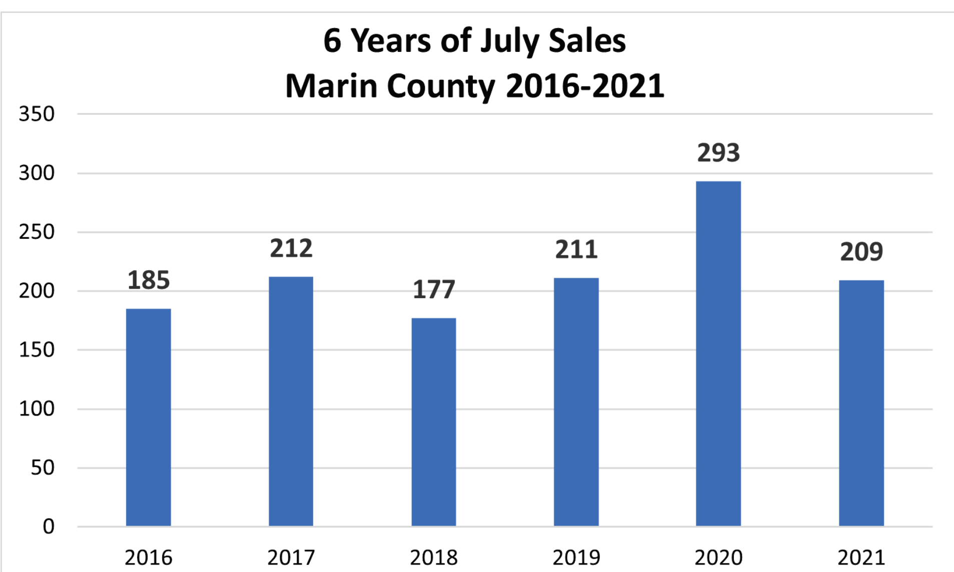


As the supply of available listings decreases relative to buyer demand, the percentage of multiple offers increases. In the first seven months of 2020 there were **7.6%** fewer properties sold with multiple offers compared with those sold with a single offer. In 2021 there were **63.3%** more properties sold with multiple offers than single offers.

July Market Activity
A Sudden Shift in the Sales Trend



For the first six months of 2021, closed sales outperformed each of the previous five years. In July, sales took a nose dive, dipping down below , 2017, 2019, and 2020. The blue bar chart below compares July 2021 sales to the previous five July's. After a strong positive trend since 2018, 2021 July sales dropped by **28.7%** compared with 2020.



There is a lot of red in the following July sales and listing trends. In recent months the general trend has been decreasing inventory and increasing sales. While the inventory has continued to drop, sales have begun to decrease as well.

Closed Sales

July 2021 209

Last Month	Last July
289	293
25.6%	28.7%

Active Listings

July 2021 165

Last Month	Last July
163	229
1.2%	28%

Pending (New) Sales

July 2021 201

Last Month	Last July
245	287
18%	30%

New Listings

July 2021 141

Last Month	Last July
204	242
30.9%	41.7%

Mo's Supply of Listings

July 2021 0.8

Last Month	Last July
0.6	0.8
	No Change
33.3%	0%

Days on Market

July 2021 26

Last Month	Last July
19	35
25%	25.7%

Average Sales Price

July 2021 $2,169,000

Last Month	Last July
$2,231,000	$1,795,000
0.3%	20.8%

S.P./L.P. Ratio

July 2021 106%

Last Month	Last July
106%	101%
No Change	
0%	5.0%

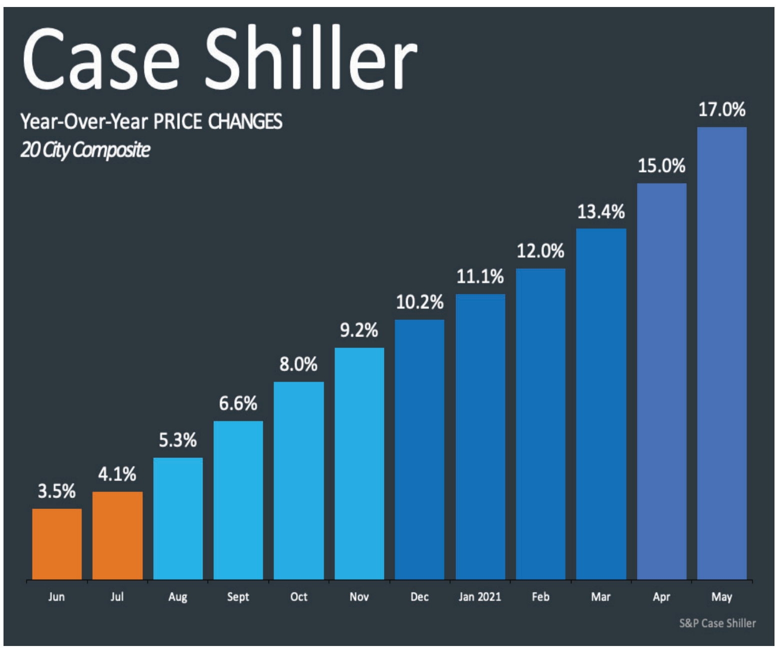
"This month's overall homebuyer demand rating equaled 86 on a 0-100 scale, down from 88 last month and marking the first sequential decline since November."

Zelman's June Broker Report

Sales dropping off so precipitously in July is a definite shift in the market - but one month does not a trend make. However, Nationwide, the chatter on real estate blogs and websites is that buyer demand is waning which they believe is the beginning of the shift to a buyer's market.

WHY IS BUYER DEMAND BEGINNING TO DECLINE?

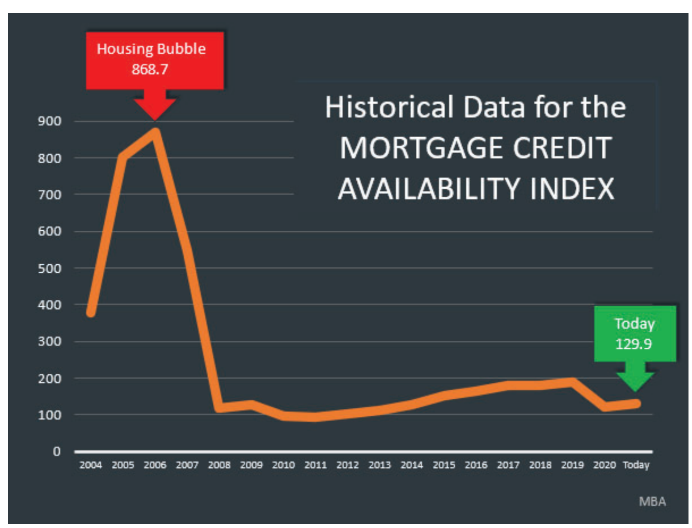
BUYER FATIGUE? There is no question that the low inventory, resulting in a growing number of multiple offers and buyers having to write offer after offer to finally win a bidding war, is causing some buyers to leave the market or to at least take a break. But is there something else going on? How can buyers walk away from a 2.8% fixed rate mortgage?



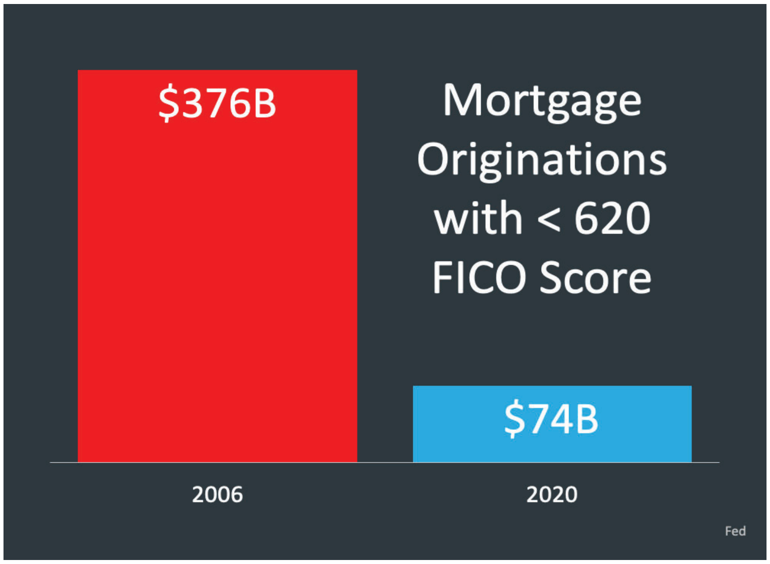
There is a nationwide belief among some buyers that we may be headed for another bubble burst, ala-2007. That fear is certainly understandable given that in the first seven months of the year, the median sales price of a Marin County single-family home increased by 25%. This chart shows the percentage of year-over-year home appreciation in 20 combined cities, including San Francisco. The rate of annual appreciation grew from **3.5%** in June of last year to **17%** this May. Many buyers are reluctant to buy a home today for fear that it will drop in value as soon as next year. But what do economists and other industry experts say about a housing bubble?

"These outsized increases have raised concerns that a home price bubble is emerging. However, conditions today are quite different than in the early 2000s, particularly in terms of credit availability. The current climb in house prices instead reflects strong demand amid tight supply, helped along by record-low interest rates."

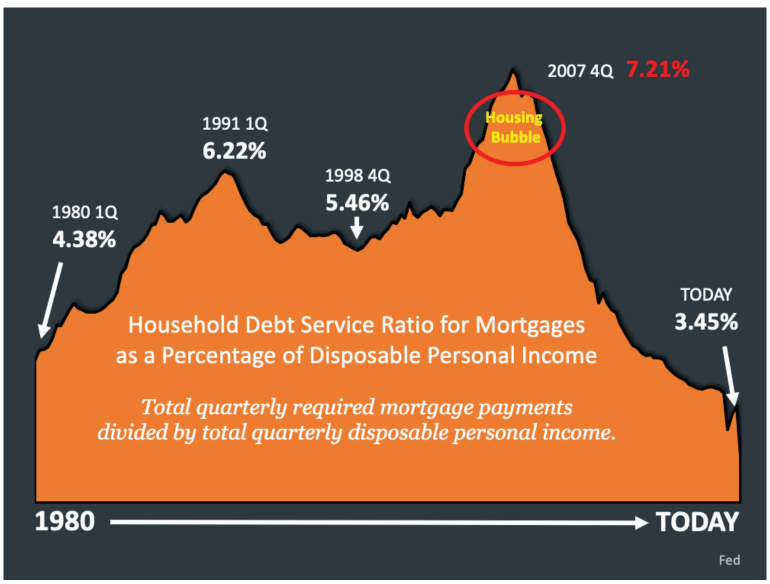
State of the Nation's Housing 2021
Joint Center of Housing Studies at Harvard University



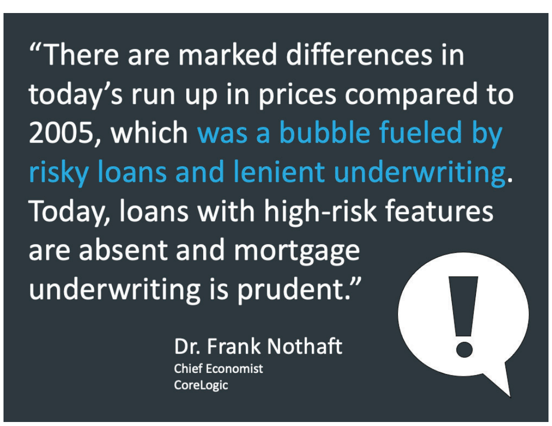
The way you read the Mortgage Credit Availability Index on the previous page is the higher the number, the easier it is to get a loan. Today we are nowhere near where we were back in the housing crisis relative to credit availability. The bubble that expanded so rapidly from 2004 through 2006 was due to overly lenient lending practices and risky loans.



In 2006 it seemed like anyone could get a loan. **$376 billion** was loaned to people with FICO scores of 620 or less. In 2020 that number was only **$74 billion**. Today, to obtain a favorable loan you need a score of 740 or higher.



In the early 2000's mortgage loans were so easy to get that many people took on debt they could not afford. At the height of the housing bubble, in 2007, the average mortgage payment as a percentage of disposable personal income was **7.21%**. Today it is **3.45%**. When many of the sleazy adjustable mortgage rates and monthly payments increased, the game was over. At one point around **30%** of all real estate sales were short sales or the result of foreclosures. The bubble burst was inevitable.



The run up in home prices prior to the bubble burst was due to a false demand created by some greedy, and often unethical lenders. Today's appreciation is due to a low inventory of available homes for sale and strong demand fueled by very low interest rates and pent-up demand from the beginning few months of the Covid pandemic. I'll conclude this explanation of why industry experts do not believe there is a bubble to burst with this quote from Mark Fleming, Chief Economist for First American. "Many find it hard to believe, but housing is actually undervalued in most markets and the gap between house-buying power and sales prices indicates there's room for further house price growth in the months to come."

> “When you have a void of information, emotion tends to drive decision making. . . .”
>
> Mark Hackett
> Chief of Investment Research
> Nationwide

Fear of buying now because of a belief that prices might fall off a cliff is due to a lack of information. I hope that the data and opinions I gathered above will help to alleviate that fear - because the very high affordability index buyers now enjoy will disappear as soon as rates increase.

MORTGAGE INTEREST RATES
Why are rates so low and when will they begin to rise again?

COVID-19 Plunged the Global Economy into the Deepest Recession since World War II

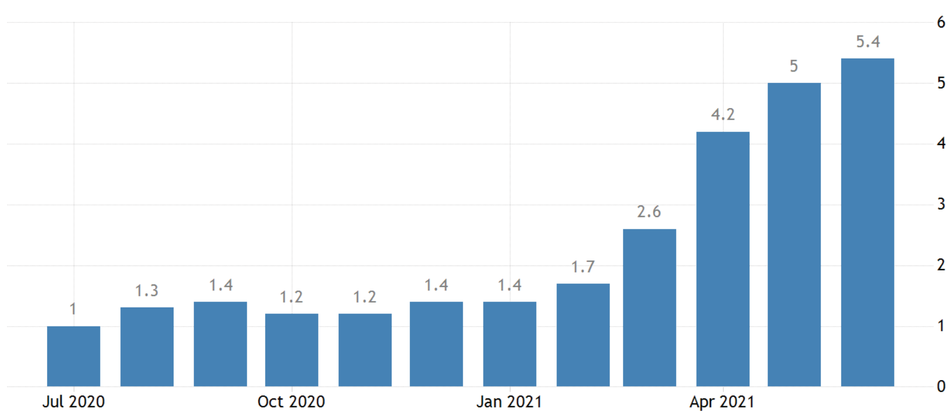
To understand why rates are expected to increase in the not so distant future, we need to understand how and why they got so low. In March of 2020, in response to the market turmoil caused by COVID-19, the White House and the Federal Reserve decided to take steps to stimulate the economy and facilitate a rapid recovery.

Housing is a huge economic driver, so it made sense for the Federal Reserve to encourage home-ownership and construction. They chose to take two primary steps to keep mortgage rates low and thus re-invigorate the real estate market.

1. They brought the federal funds rate down to 0.00% - 0.25% which has an indirect effect on mortgage interest rates. The federal funds rate is the interest rate that banks charge each other to borrow or lend excess reserves overnight. Lowering the rate allows banks to pass on the lower rates to their customers. Reductions in credit card rates, car loans, etc. also had the affect of stimulating consumer spending in every sector of the economy.

2. They also decided to restart major purchases of Mortgage-Backed Securities (MBS) in order to keep mortgage rates low and maintain housing affordability during a difficult period. When the Fed buys a lot of MBS's, the high demand increases the price which lowers the yield or rate of return. When the yield on MBS's goes down so do mortgage interest rates. The Fed is currently purchasing more than $100,000,000,000 worth of MBS's every month.

THE FED GIVETH AND THE FED TAKETH AWAY—THE QUESTION IS WHEN



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

What seems to frighten the Federal Reserve more than anything?

If you guessed

Inflation

you were right.

With many businesses re-opening in the first half of the year, not to mention the return of the airlines, Americans rushed to make up for lost time, and to take advantage of the low rates. The result has been a dramatic and rapid increase in inflation from **1.4** in January to **5.4** in June - a new 13-year high. Fortunately, the White House and the Federal Reserve are in agreement that, for now, they should continue to fuel the recovery. The question on the lips of every economist is "for how long?" When will the government decide that it is time to cool off the economy and get inflation under control?

Mortgage Rate Projections

Quarter	Freddie Mac	Fannie Mae	MBA	NAR	Average of All Four
2021 3Q	3.3	3.0	3.2	3.2	3.17%
2021 4Q	3.4	3.2	3.5	3.4	3.37%
2022 1Q	3.5	3.2	3.7	3.5	3.47%
2022 2Q	3.6	3.3	3.9	3.5	3.57%

Here are the current projections from Freddie Mac, Fannie Mae, the Mortgage Bankers Association and the National Association of Realtors. The average opinion of these four industry leaders shows rates slowly increasing to **3.22%** in Q3 2021 and up to **3.60%** in Q2 2022. Of course rates could go higher if inflation continues to spike and the Federal Reserve moves to increase interest rates at a more rapid pace.

Lawrence Yun, Chief Economist for the California Association of Realtors, recently said, “At a broad level, home prices are in no danger of declining, due to tight inventory conditions. But I do expect prices to appreciate at a slower pace by the end of the year. Ideally, the costs for a home would rise roughly in line with income growth, which is likely to happen in 2022 as more listings and new construction become available.”

I will keep my fingers on the pulse of the market and report back to you next month. Of special interest will be the stimulus packages currently being debated in congress. If they pass it will bring much-needed relief to many but could also fuel further inflation which, in turn, would result in a more rapid rise in mortgage rates than currently expected. And, as always, please give me a call if I can answer any of your real estate-related questions. If you are considering a purchase or sale, I am happy to analyze your local marketplace so that you can make informed and effective decisions.

SHERRIE M. FABER

CO-FOUNDER/CEO
FIRST CALIFORNIA REALTY, INC.

2001 Bridgeway
Sausalito, CA 94965
CALBRE NO. 1272361
C:415.339.9200 O:415.331.6100
Sherrie@FirstCaliforniaRealty.com